

REPORT OF THE AUDITOR-GENERAL TO THE MEMBERS OF THE COUNCIL OF LEJWELEPUTSWA DISTRICT MUNICIPALITY ON THE FINANCIAL STATEMENTS OF THE LEJWELEPUTSWA DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2003

1 AUDIT ASSIGNMENT

The financial statements as set out on pages 4 to 23, for the year ended 30 June 2003, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

2 NATURE AND SCOPE

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements.

AN AUDIT INCLUDES:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with relevant laws and regulations which came to my attention and are applicable to financial matters.

I believe that the audit provides a reasonable basis for my opinion.

3 UNQUALIFIED AUDIT OPINION

In my opinion the financial statements fairly present, in all material respects, the financial position of the Lejweleputswa District Municipality as at 30 June 2003 and the results of its operations and cash flows for the year then ended in accordance with prescribed accounting practices.

4 EMPHASIS OF MATTER

Without qualifying the audit opinion expressed above, attention is drawn to the following matters:

4.1 MATTERS AFFECTING THE FINANCIAL STATEMENTS

(a) Lejweleputswa District Bucket Eradication Sanitation Programme

According to an agreement between the District Municipality and the firm responsible for the implementation of the Lejweleputswa District Bucket Eradication Sanitation Programme, the costs of this project will amount to R62,949 million for 41 966 toilet facilities. Although R4 682 439 (approximately 7.4%) was paid to the firm to 30 June 2003, according to a report of the developing officer, only 274 toilets (approximately 0.7%) were completed at this date. As the agreement between the district municipality and the firm indicates that hard costs for the construction of the toilets amounts to R900 per toilet, an amount of R1 867 993 was overpaid to the firm.

(b) Financial statements

Although the financial statements of the district municipality was submitted timeously as required in terms of the Local Government Transition Act, 1993 (Act No. 209 of 1993), a number of changes had to be made to the financial statements that affected the audit opinion expressed thereon. The final version of the financial statements was received on 2 December 2003.

4.2 MATTERS NOT AFFECTING THE FINANCIAL STATEMENTS

4.2.1 WEAKNESSES IN INTERNAL CONTROL

The following internal control weaknesses were identified and reported to management:

- (a) A lack of internal control in respect of face value documents was identified.
- (b) Policies for the provision for bad debt and the writing off of bad debt were not in place.
- (c) Internal controls regarding tenders invited, received and allocated, and contracts signed by or on behalf of the council were lacking.
- (d) Inventory registers were not updated, an internal verification of assets and inventories at 30 June 2003 were not done. Furthermore, a number of instances were identified where the assets were stolen including an instance of computer theft that was not reported to the SAPS.
- (e) Adequate internal controls regarding the keeping of vehicle loan agreements were not in place. This includes the inadequacy of some of the agreements to protect the interests of the council.
- (f) Adequate general controls surrounding the information systems of the District Municipality to ensure the effective and continuous operation of the data-processing function was not in place. This, amongst others, includes the lack of a formal security policy, user setup process, IT strategic plan and control over software installed on the organisation's information technology assets. According to the comment received in the management letter the ideal information technology environment is currently not possible due to staff constraints.
- (g) Controls surrounding the keeping and completion of the registered post and remittance registers

were lacking.

- (h) Evidence that Contracts of Employment for a number of personnel appointed during the financial year, were drawn up and signed by all parties concerned could not be submitted.

These internal control weaknesses are hampering the effective management of the municipality and management should take corrective action to address these weaknesses.

4.2.2 MATTERS IN PUBLIC INTEREST

- (a) Forensic audit: The council of the District Municipality has requested the Office of the Auditor-General to conduct a forensic investigation into alleged irregularities with credit card transactions, subsistence and travel claims and other expenditure. At the time of this report this forensic investigation was not completed. Investigations are also being conducted into the expenditure incurred on the bucket eradication sanitation programme and Tokologo road project. At the time of this report the report on these investigation had not yet been issued.
- (b) Building of Council Chambers and Offices: The construction of the council chambers and offices appears not to have progressed according to plan during the year. By the end of the financial audit during December 2003, approximately one year after the tenders were obtained, only the foundations of the building had been constructed. Management indicated that a new project plan would be formalised during 2004.
- (c) Corporate gifts and stationery - Value for money: A number of transactions amounting to R205 204 with a specific vendor were identified relating to corporate gifts and stationery purchased by the Council during the year. The unit costs of these items were found to be excessively high for the products delivered and the possibility exists that management could have negotiated a better price for the goods. Approved order forms and evidence that quotations were obtained for certain of the goods that were delivered could not be submitted.

4.2.3 NON-COMPLIANCE WITH LAWS AND REGULATIONS

- (a) Employment Equity Policy and Affirmative action Policy: The financial statements indicate the personnel establishment of the district municipality to be 50 employees. Evidence that the District Municipality has drawn up and implemented an employment equity and/or affirmative action policy as stipulated in the Employment Equity Act (Act No. 55 of 1998) could not be submitted.
- (b) Performance Management System: Evidence that the district municipality implemented a performance management system and measured its performance as required by section 10G(1)(f) of the Local Government Transition Act, 1993 (Act No. 209 of 1993), the Local Government:

Systems Act, 2000 (Act No. 32 of 2000) and the Local Government Municipal Planning and Performance Management Regulation, 2001 could not be submitted.

- (c) Debtors: A credit control policy as required in terms of sections 96 and 97 of the Municipal Systems Act, 2000 was not in place.
- (d) Audit committee and internal audit function: No internal audit function existed for the year under review and no audit committee was in place to exercise a supervisory role in this regard. According to the requirements of section 10G(2)(c) of the Local Government Transition Act, 1993 (Act No. 209 of 1993), every municipality should institute internal audit, including audit committees, as an independent appraisal function.
- (e) Councillors: Occupation and Enterprises: Evidence that certain councillors declared their financial interests as required in terms of item 7 of the Code of Conduct for Councillors that is applicable to every member of a municipal council in terms of section 54 of the Local Government: Municipal Systems Act, 2000 could not be submitted.

5 APPRECIATION

The assistance rendered by the staff of the Council during the audit is sincerely appreciated.



AUDITOR-GENERAL
Bloemfontein
23 December 2003